

Message Text

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ACTION EUR-25

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NSAE-00 PA-04 RSC-01 PRS-01 SPC-03 USIA-15 TRSE-00

SAJ-01 SS-20 NSC-07 DODE-00 OMB-01 ACDA-19 DRC-01

MC-02 EB-11 /142 W

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R 271815Z MAR 74

FM USMISSION NATO

TO SECSTATE WASHDC 4841

INFO AMEMBASSY BONN

C O N F I D E N T I A L SECTION 1 OF 2 NATO 01676

E.O. 11652: GDS, 12/31/80

TAGS: MCAP, EFIN, GW, NATO

SUBJ: BRUDENSHARING: PRESENTATION IN NAC

REF: A) STATE 57527; B) STATE 59808

SUMMARY: I RECOMMEND THAT AT THE FIRST COUNCIL MEETING FOLLOWING FORMAL CONCLUSION OF THE U.S.-FRG OFFSET AGREEMENT, I PRESENT A STATEMENT ON HOW THE REMAINING U.S. DEFICIT ON MILITARY ACCOUNT WITH NATO EUROPE MIGHT BE COVERED. I REQUEST DEPARTMENT'S COMMENTS ON ILLUSTRATIVE STATEMENT. END SUMMARY.

1. NOT THAT U.S.-FRG BILATERAL OFFSET AGREEMENT, AS DESCRIBED REF A, HAS BEEN APPROVED IN PRINCIPLE BY FRG CABINET AND FORMAL AGREEMENT LIKELY TO BE SIGNED SOON, WE SHOULD BE PREPARED TO FOLLOW-UP IN THE NAC. WHEN NEW BILATERAL OFFSET AGREEMENT IS SIGNED, OUR OTHER ALLIES WILL NEED TO KNOW TO WHAT EXTENT OUR NATO-RELATED EXPENDITURES IN EUROPE HAVE BEEN OFFSET AND THE REMAINING DEFICIT TO BE COVERED TO ACHIEVE NECESSARY OFFSET.

2. BELOW IS AN ILLUSTRATIVE TEXT WHICH COULD BE PRESENTED IN THE FIRST COUNCIL MEETING FOLLOWING FORMAL CONCLUSION OF THE U.S.-FRG BILATERAL.
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AS INDICATED IN REF A, IT DOES NOT DISCUSS THE POSSIBILITY OF A

"REFLOW" CREDIT TO OFFSET U.S. EXPENDITURES FOR THE PURPOSES OF THE JACKSON-NUNN AMENDMENT. THEREFORE, THE DEFICIT INCLUDED IN THE PROPOSAL AS A TARGET TO BE OFFSET BY ALLIES BY PROCUREMENT OR OTHER OPTIONS IS \$1,012 MILLION. ON THE BASIS OF ESTIMATES BY THE ECONOMIC DIRECTORATE THAT ALLIED (OTHER THAN FRG) PROCUREMENT WILL REACH APPROXIMATELY \$800 MILLION THIS FISCAL YEAR, PRESSURE WILL REMAIN ON ALLIES TO INCREASE PROCUREMENT, TO INDUCE FRANCE, FRG, AND U.K. TO PARTICIPATE IN REDUCTION U.S. SHARE OF NATO BUDGETS, OR TO PROPOSE OTHER MEASURES TO OFFSET FULLY U.S. EXPENDITURES.

3. FOR U.S. PURPOSES IN MEETING THE REQUIREMENTS OF JACKSON-NUNN, THE AMOUNT OF "REFLOW" CREDIT WILL HAVE TO RELY UPON WILL MORE OR LESS DEPEND ON THE VALUE OF ALLIED PROCUREMENT AND OTHER OFFSET MEASURES. TO THE EXTENT THAT ALLIED (OTHER THAN FRG) PROCUREMENT EXCEEDS \$682 MILLION (THE DEFICIT IF AN ANNUAL 20 PCT "REFLOW" CREDIT OF \$330 MILLION IS INCLUDED) THE PERCENTAGE "REFLOW" CREDIT REQUIRED WILL BE REDUCED. IF SUCH PROCUREMENT REACHES APPROXIMATELY \$800 MILLION, THE REMAINING DEFICIT TO BE COVERED BY THE "REFLOW" CREDIT CONCEPT WILL BE \$212 MILLION, OR 10 PERCENT OF OUR NATO-RELATED EXPENDITURES IN ALL NATO EUROPE OF \$2,121 MILLION.

4. PRESENTATION TO ALLIES WILL NOT BE EASY. THERE WILL BE QUESTIONS IN THE COUNCIL TO WHICH U.S. MUST BE ABLE TO RESPOND. OUR ALLIES WILL WANT DETAILS OF THE COMPOSITION OF THE FRG ANNUAL OFFSET PACKAGE OF \$1,109 MILLION. U.S. MUST BE PREPARED TO SAY THAT IN ADDITION TO MILITARY PROCUREMENT IT INCLUDES LOANS OF \$422 MILLION ON AN ANNUAL BASIS, AS WELL AS THE ASSUMPTION OF THE COST OF BARRACKS REHABILITATION, LAND TAXES, AND AIRPORT FEES. IN ADDITION, ALLIES WILL NOTE THAT FRG OFFSET DOES NOT COVER ALL U.S. MILITARY EXPENDITURES IN THE FRG EVEN THOUGH THERE HAVE BEEN STATEMENTS IN THE PRESS THAT 100 PCT OFFSET HAS BEEN REACHED. UNDER THE CIRCUMSTANCES, IT WOULD SEEM IMPOSSIBLE NOT TO MENTION THE 20 PCT "REFLOW" CREDIT APPLIED TO GERMANY. SINCE COUNCIL DISCUSSION IS BOUND TO TOUCH ON THESE FACTORS IN THE BILATERAL AGREEMENT, WE CAN ANTICIPATE THAT ALLIES WILL WANT SIMILAR CRITERIA APPLIED TO THEM. IN ADDITION TO REQUESTING THEY BE GIVEN CREDIT FOR "REFLOW" FROM U.S. EXPENDITURES, THEY MAY POINT OUT THAT THEIR PROCUREMENT MUST BE MADE DURING THIS FISCAL YEAR

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WHILE SOME FRG PAYMENTS (E.G. FOR BARRACKS REHABILITATION) ARE LIKELY TO BE OVER A LONGER PERIOD. IT WOULD BE BEST TO ADDRESS THESE QUESTION IN MY STATEMENT TO THE NAC. I REQUEST GUIDANCE ON HOW BEST TO DEAL WITH THEM.

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INFO AMEMBASSY BONN

C O N F I D E N T I A L SECTION 2 OF 2 USNATO 1676

BEGIN TEXT-

DURING OUR COUNCIL MEETING OF NOV 29, 1973, I PRESENTED SOME ILLUSTRATIVE EXAMPLES OF HOW OUR NATO ALLIES MIGHT OFFSET U.S. TROOP STATIONING COSTS IN EUROPE AND MEET THE PROVISIONS OF THE JACKSON-NUNN AMENDMENT. IN PRESENTING THE EXAMPLES, I EMPHASIZED THAT THEY WERE MERELY ILLUSTRATIVE, AND THAT THEY WERE BASED ON CERTAIN ASSUMPTIONS WHICH MIGHT OR MIGHT NOT BE ACCURATE.

THE NOVEMBER 29 PRESENTATION ASSUMED THAT RELEVANT PROJECTED U.S. DEFENSE EXPENDITURES IN NATO EUROPE WOULD BE \$2.5 BILLION. IT WAS FURTHER ASSUMED THAT THAT AMOUNT WOULD BE PARTLY OFFSET BY A U.S.-FRG OFFSET AGREEMENT COVERING 100 PERCENT OF U.S. MILITARY EXPENDITURES IN THE FRG, THAT IS \$1.6 BILLION. ON THE BASIS OF THOSE ASSUMPTIONS, THERE REMAINED A DEFICIT OF \$900 MILLION TO BE OFFSET IN FISCAL YEAR 1974 IN SOME OTHER WAY. I STRESSED THAT IF U.S. EXPENDITURE PROJECTION WERE REVISED OR THE FRG OFFSET WERE MORE OR LESS, THEN THE \$900 MILLION DEFICIT FIGURE WOULD BE HIGHER OR LOWER ACCORDINGLY.

THE U.S. AND THE FRG HAVE NOW CONCLUDED A NEW BILATERAL OFFSET AGREEMENT. ALSO, THE U.S. HAS REFINED ITS PROJECTION OF ITS MILITARY EXPENDITURES IN EUROPE WHICH ARE RELATED TO NATO COMMITMENTS

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CONSEQUENTLY, IT IS NOW POSSIBLE TO QUANTIFY MORE PRECISELY THE TWO MAJOR ASSUMPTIONS IN THE NOV. 29 ILLUSTRATIVE PROPOSAL.

FROM TOTAL U.S. MILITARY EXPENDITURES IN NATO EUROPE OF \$2,451 MILLION, WE CAN DEDUCT \$330 MILLION AS EXPENDITURES NOT DIRECTLY RELATED TO NATO COMMITMENTS, LEAVING A BALANCE OF \$2,121 MILLION TO BE OFFSET. UNDER THE RECENTLY CONCLUDED BILATERAL ARRANGEMENT, THE FRG HAS AGREED TO OFFSET PAYMENTS TOTALING \$2,218 MILLION OVER THE TWO-YEAR PERIOD OF THE AGREEMENT, JULY 1, 1973-JUNE 30, 1975. FOR PURPOSES OF THE JACKSON-NUNN AMENDMENT, HALF OF THAT AMOUNT, OR \$1,109 MILLION MAY BE CONSIDERED AS OFFSET TO U.S. MILITARY EXPENDITURES DURING THE CURRENT FISCAL YEAR. DEDUCTING THIS AMOUNT FROM THE REFINED U.S. EXPENDITURE FIGURE OF \$2,121 MILLION LEAVES A DEFICIT OF \$1,012 MILLION TO BE OFFSET IN FISCAL YEAR 1974 IN SOME OTHER WAY.

THIS AMOUNT COULD BE OFFSET BY ANY COMBINATION OF THE OPTIONS PROPOSED BY THE NATO STUDY GROUP. FOR EXAMPLE, IF WE ASSUME (AGAIN AS AN ILLUSTRATIVE EXAMPLE) THAT MILITARY PROCUREMENT BY THE EUROPEAN MEMBERS OF NATO OTHER THAN THE FRG WILL TOTAL \$800 MILLION, THE DEFICIT REMAINING WOULD BE \$212 MILLION. THIS AMOUNT COULD BE COVERED BY ALLIED ASSUMPTION OF SPECIFIC U.S. BUDGETARY COSTS IN EUROPE, INCLUDING BUDGETED CONSTRUCTION AND BASE OPERATION. OF COURSE, TO THE EXTENT THAT MILITARY PROCUREMENT IN THE U.S. IS GREATER OR LESS THAN THE ASSUMED \$800 MILLION, THE DEFICIT TO BE COVERED BY THE ASSUMPTION OF U.S. BUDGETARY COSTS WILL BE ACCORDINGLY LESS OR MORE.

AS I NOTED IN THE NOV. 29 PRESENTATION, THE U.S. MUST COMPLY WITH THE REQUIREMENTS OF THE JACKSON-NUNN AGREEMENT. MY REMARKS TODAY ARE TO SUGGEST IN GENERAL TERMS HOW THAT MIGHT BE ACHIEVED NOW THAT THE U.S.-FRG BILATERAL AGREEMENT HAS BEEN CONCLUDED.

AS I HAVE SAID BEFORE IN THE COUNCIL, WE WOULD WELCOME SUGGESTIONS FROM OUR ALLIES WHICH WOULD HELP US MEET THE REQUIREMENTS OF U.S. LAW. END PROPOSED TEXT. RUMSFELD

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